

**SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

State of South Carolina



Office of the State Auditor

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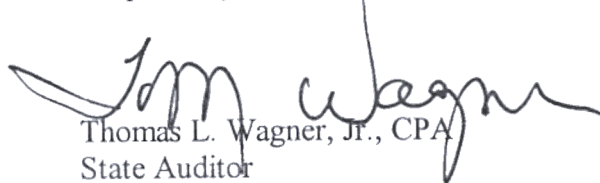
November 2, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Commissioners
South Carolina State Housing Finance and Development Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Housing Finance and Development Authority for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina State Housing Finance and Development Authority (the Authority) as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying financial statements of the Authority are intended to present its financial position and results of operations, and the cash flows for its proprietary fund type of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Authority, a department of the State of South Carolina. They are not intended to present fairly the financial position, results of operations, and cash flows of the funds of the State of South Carolina and/or its other agencies, institutions, departments or funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2001, and the results of its operations, and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, management discovered that arbitrage costs attributable to various bonds refunded as of June 30, 2000 was not accrued as of the prior year end. A prior period adjustment was made toward their expense.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2001 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Additionally, other supplementary information presented on pages 36-46 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 26, 2001

Rogers & Laban, P.A.

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SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**COMBINED BALANCE SHEET - ALL FUND TYPES
JUNE 30, 2001**

	<u>Governmental Fund Type Special Revenue</u>	<u>Proprietary Fund Type Enterprise</u>	<u>Total (Memorandum Only)</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,812,174	\$ 9,010,841	\$ 20,823,015
Accounts receivable:			
Due from grantor		3,652,096	3,652,096
Other		303,524	303,524
Loans receivable	139,925	141,019	280,944
Interest receivable:			
Loans	91,809	58,003	149,812
Deposits and investments	1,339	1,020	2,359
Due from South Carolina Department of Revenue	630,067		630,067
Long-term assets:			
Investments		684,112	684,112
Loans receivable	6,830,278	19,550,319	26,380,597
Restricted assets:			
Current assets			
Cash and cash equivalents		146,841,261	146,841,261
Accounts receivable		319,140	319,140
Loans receivable, net of unamortized discounts		10,015,855	10,015,855
Interest receivable:			
Loans		4,010,733	4,010,733
Deposits and investments		2,004,012	2,004,012
Long-term assets:			
Investments		20,597,619	20,597,619
Loans receivable, net of unamortized discounts		508,737,075	508,737,075
Other assets:			
Unamortized bond issuance costs		4,184,938	4,184,938
Property and equipment:			
Furniture and equipment		1,332,147	1,332,147
Less, accumulated depreciation		(482,950)	(482,950)
TOTAL ASSETS	<u><u>\$ 19,505,592</u></u>	<u><u>\$ 730,960,764</u></u>	<u><u>\$ 750,466,356</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

COMBINED BALANCE SHEET - ALL FUND TYPES (CONTINUED)

JUNE 30, 2001

	<u>Governmental Fund Type Special Revenue</u>	<u>Proprietary Fund Type Enterprise</u>	<u>Total (Memorandum Only)</u>
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	\$	\$ 3,893,216	\$ 3,893,216
Mortgage escrows	2,699	2,023	4,722
Due to grantor		2,297,474	2,297,474
Liabilities payable from restricted assets:			
Current liabilities:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings		10,618,559	10,618,559
Interest payable on bonds		14,390,665	14,390,665
Mortgage escrows		4,451,453	4,451,453
Other		177,300	177,300
Long-term debt:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings		494,887,385	494,887,385
TOTAL LIABILITIES	<u>2,699</u>	<u>530,718,075</u>	<u>530,720,774</u>
Fund equity:			
Retained earnings:			
Reserved for debt service		158,046,419	158,046,419
Reserved for bond reserves		14,138,852	14,138,852
Unreserved		28,057,418	28,057,418
Fund balance:			
Reserved for long-term loans receivable	6,830,278		6,830,278
Unreserved	<u>12,672,615</u>		<u>12,672,615</u>
TOTAL FUND EQUITY	<u>19,502,893</u>	<u>200,242,689</u>	<u>219,745,582</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 19,505,592</u>	<u>\$ 730,960,764</u>	<u>\$ 750,466,356</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
GOVERNMENTAL FUND TYPE
YEAR ENDED JUNE 30, 2001

	<u>Special Revenue</u>
Revenues:	
Interest on loans	\$ 120,582
Investment income	769,650
Documentary stamp fees	<u>6,389,907</u>
TOTAL REVENUES	7,280,139
Expenditures:	
Grant disbursements for Housing Trust Program	<u>8,856,972</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,576,833)
FUND BALANCE, BEGINNING OF YEAR	<u>21,079,726</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 19,502,893</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS-
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2001**

	<u>Enterprise</u>
Operating revenues:	
Interest on loans	\$ 37,207,113
Investment income	10,468,599
Bond premium amortization	38,511
Administrative fees and other	<u>6,005,746</u>
TOTAL OPERATING REVENUES	<u>53,719,969</u>
Operating expenses:	
Bond interest	31,640,206
Program	1,472,362
General and administrative	7,924,434
Bond issuance cost amortization	238,315
Depreciation of property and equipment	121,896
Write-off of property and equipment	93,325
Other	<u>140,463</u>
TOTAL OPERATING EXPENSES	<u>41,631,001</u>
OPERATING INCOME	<u>12,088,968</u>
Non-operating revenues (expenses):	
HUD housing assistance contributions earned	38,116,206
Housing assistance payments	<u>(34,693,928)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES) - NET	<u>3,422,278</u>
INCOME BEFORE EXTRAORDINARY ITEM	15,511,246
Extraordinary item:	
Loss on early extinguishment of debt	<u>(372,418)</u>
NET INCOME	15,138,828
RETAINED EARNINGS, AS RESTATED, BEGINNING OF YEAR	<u>185,103,861</u>
RETAINED EARNINGS, END OF YEAR	<u><u>\$ 200,242,689</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2001**

	<u>Enterprise</u>
Cash flows from operating activities:	
Operating income	\$ 12,088,968
Adjustments to reconcile operating income to net cash provided by operating activities:	
Bond premium amortization	(38,511)
Depreciation and write-off of furniture and equipment	215,221
Bond issuance cost amortization	238,315
Loan discount amortization reported in interest on loans revenue	(19,174)
Write-off of loan receivable	6,551
Bond interest expense - reclassified to non-capital financing activities	31,640,206
Arbitrage expense - reclassified to noncapital financing	12,000
Investment income - reclassified to investing activities	(10,468,599)
Changes in assets and liabilities:	
(Increase) decrease in interest receivable on loans	(167,208)
(Increase) decrease in other accounts receivable	(125,811)
Increase (decrease) in due from grantor	432,529
Increase (decrease) in mortgage escrows	221,321
Increase (decrease) in accounts payable and accrued expenses	2,218,286
Increase (decrease) in due to grantor	(2,076,057)
Increase (decrease) in other liabilities	47,480
Receipt of loan principal payments	48,549,029
Purchase/origination of new loans	<u>(80,456,678)</u>
Total adjustments	<u>(9,771,100)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,317,868</u>
Cash flows from capital and related financing activities:	
Purchase of property and equipment	<u>(186,800)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(186,800)</u>
Cash flows from noncapital financing activities:	
Interest payments on bonds	(30,586,878)
Principal payment on bonds	(37,200,000)
Payment of bond issuance costs	(129,844)
Payment of arbitrage expense	(12,000)
Transfers from other programs	7,056,409
Transfers to other programs	(7,056,409)
Receipts from HUD	38,116,206
Housing assistance payments	<u>(34,693,928)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(64,494,444)</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE - CONTINUED
YEAR ENDED JUNE 30, 2001

	<u>Enterprise</u>
Cash flows from investing activities:	
Purchase of investments	(16,386,938)
Interest received on deposits and investments	<u>9,790,376</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(6,596,562)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,971,938)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>224,824,040</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 155,852,102</u></u>

SUPPLEMENTAL INFORMATION

OPERATING ACTIVITIES INFORMATION:

- a. Included in operating income is \$37,039,905 of interest collected on loans receivable.

NONCASH OPERATING ACTIVITIES INFORMATION:

- a. Included in operating expenses under the other category is \$6,551 for rewrite-off loans receivable.

NONCASH CAPITAL AND RELATED FINANCING INFORMATION:

- a. Furniture and equipment with a cost of \$164,391 and accumulated depreciation of \$71,066 were written-off as deletions during the year.

NONCASH INVESTING INFORMATION:

- a. The increase in fair value of investments for the year ended June 30, 2001 that is included in these financial statements in "investment income" follows:

Single family programs funds	\$274,974
Program funds	\$ 8,894

NONCASH NONCAPITAL FINANCING ACTIVITIES INFORMATION:

- a. Interest payments on bonds do not include \$86,576 amortization of bond discounts and \$190,876 of amortization of deferred losses on refundings of debt that were reported as operating expense-bond interest.
- b. Unamortized bond discounts of \$27,718 and unamortized bond issuance costs of \$344,700 were written off as an extraordinary loss. See Note 4.

See accompanying Notes to Financial Statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting principles followed by South Carolina State Housing Finance and Development Authority (the Authority) and the methods of applying those principles which materially affect the determination of financial position, results of operations, and cash flows are summarized as follows:

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Authority (a primary entity). The Authority has determined it has not component units.

A primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget.
- (2) Levies taxes or set rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Authority has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Authority (a primary entity).

Primary Entity

The Authority is a part of the State of South Carolina primary government and its funds are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Authority is a public body, corporate and politic, and a reporting entity of the primary government of the State of South Carolina. The Authority was established pursuant to Section 31-13-20, an Amendment to the Housing Authorities Law of South Carolina. The laws of the State and policies and procedures specified by the State for State agencies are applicable to the Authority. The powers of the Authority were expanded through the passage of the South Carolina State Housing Act of 1977 (31-13-10 through 330 and 31-3-1510), and as amended in 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Primary Entity (Continued)

The Act empowers the Authority to enter into grants and contracts with the federal government and to issue bonds and notes. In 1992, the General Assembly amended Chapter 13, Title 13 by adding Article 4 which enacts the Housing Trust Fund Act of 1992.

The Authority's Board of Commissioners, whose members are appointed by the Governor, is the governing body of the Authority. The Board Administrators, has jurisdiction over, and is responsible for the management of the Authority.

The accompanying financial statements present the financial position, results of operations, and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Authority.

The Mortgage Revenue Bonds are special obligations of the Authority and are not a debt, grant or loan of the State of South Carolina nor any political subdivision of the State, and neither the State of South Carolina or any political subdivision is liable thereon. The bonds are secured by and payable solely from the monies, income, and receipts of the Authority pledged for the payment thereof under the Indentures. Payment of the principal or redemption price of, and interest on, all bonds is secured ratably and equally by the proceeds of the bonds, revenue (including scheduled payments of principal and interest on mortgages and repayments of mortgage loans and interest and income received on investments of money held in the funds and accounts), and the right, title, and interest of the Authority in and to the mortgage loans.

The Authority has issued bonds and notes which are insured, secured and/or guaranteed such that the Authority has no liability. These bonds and notes are identical to industrial development bonds. Original issue amounts and the related investments are not included in the financial statements of the Authority.

Fund Accounting

Fund Accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the entity and in accordance with directives issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been recorded and reported by fund type.

Transfers between enterprise funds have been eliminated on the combined financial statements of revenues, expenses, and changes in retained earnings.

The Authority's funds are classified into two categories - governmental and proprietary. Each category is divided into fund types.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Funds

Governmental funds finance the Authority's governmental functions including the disbursement of restricted monies. The Authority's governmental fund type is a special revenue fund. Expendable assets are assigned to the applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

The Special Revenue fund accounts for the Housing Trust fund, which was established in May, 1992. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. The Fund is to be used to finance, in whole or in part, affordable housing projects and developments by loans and/or grants or providing matching funds to secure federal funding or other funding.

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specified use are presented as reserved.

Proprietary Funds

The proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from activities of the Authority are provided to outside parties and such activities are accounted for in an enterprise fund type of the State of South Carolina. An enterprise fund accounts for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services. The Authority's proprietary fund category includes the following enterprise funds:

The General Operating Fund records administrative fees from the U.S. Department of Housing and Urban Development (HUD) programs and the Multi-family Finance Program and other fee type income. These sources of funds as well as operating transfers from other programs are used to defray the general and administrative expenses of the Authority. The general operating fund also accounts for housing assistance contributions earned from HUD and payments made by the Authority to qualified recipients under the HUD programs.

The Single Family Finance Programs Fund accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture, 1982 Homeownership Mortgage Purchase Bond Resolution and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the three programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet Federal and State eligibility requirements. The programs generate income to cover the costs of administration and debt service on the bonds. Excess funds may be transferred to the other programs at the discretion of the Authority.

The Multifamily Finance Programs Fund accounts for the financing activities of the Authority's multi-family residential revenue bond indentures. Fourteen mortgages have been purchased covering projects that house low-income citizens meeting Federal eligibility requirements. All mortgages under these indentures are insured by the Federal Housing Administration. The programs generate income to cover costs of administration and debt service on the bonds. Excess funds may be transferred to other programs at the discretion of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

The Program Fund accounts for administrative and other miscellaneous type fees not accounted for elsewhere. This fund is used by the Authority to finance special projects or other expenses authorized by the Authority's Board of Commissioners. The Authority's Board of Commissioners designated by Resolution \$5,900,000 for special programs effective June 30, 1992. The program fund generates income to cover costs of administration and makes loans to organizations for low income housing. The portion of the unreserved retained earnings balance allocable to the Program Fund at June 30, 2001 was \$25,303,254.

Basis of Accounting and Reporting

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases in net current assets.

Governmental fund revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues and other fund financial resources are recognized in the accounting period in which they become both measurable and available to finance expenditures. Federal reimbursement type grants are recorded as revenue when the related expenditures are incurred. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Payments for prepaid items are recognized as an expenditure in the year of payment.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases in net total assets.

The Authority recognizes revenues and expenses and the recording of depreciation expense for the enterprise fund-type using the accrual basis of accounting. Revenues and federal reimbursement type grants are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles for all State governmental entities. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America. Accordingly, the Authority applies all applicable GASB pronouncements, and, for its proprietary activities, the Authority has elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Transfers of financial resources among funds are recognized in all affected funds in the period in which the related interfund receivables and payables arise.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Restricted Assets and Liabilities Payable from Restricted Assets Under Revenue Bond Resolutions

Generally, under the applicable bond indentures, the earnings and receipt of loan receivable payments related to investment and mortgage loan assets in the single family and multi-family finance program funds are required to be used for the related bonds payable debt service payments. Because these assets are generally restricted for this purpose, they have been reflected in the restricted assets portion of the accompanying balance sheets. The liabilities that are to be paid from these restricted assets are also noted as liabilities payable from restricted assets.

Net restricted assets reserved for bond reserves are computed July 1 of each year by a percentage of the then outstanding bond principal in accordance with the bond indenture.

Net restricted assets not reserved for the respective bond reserves of the single family and multi-family finance programs are reflected as reserved retained earnings for debt service in the retained earnings section of the accompanying balance sheets.

Totals (Memorandum Only) Columns

Amounts in the totals (memorandum only) columns of the reporting entity financial statements present an aggregation of financial statements line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the Authority either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions that the Authority engages in is "voluntary nonexchange transactions" related to certain grants and contracts.

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a. The recipient has the characteristics specified by the provider.
- b. The recipient has met the time requirements specified by the provider (i.e., the period when the resources are required to be used or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).
- c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
- d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Bond Discounts, Premiums, Deferred Losses on Refundings of Debt, Issuance Costs, and Amortization

Bond discounts and premiums are amortized over the terms of the bonds using the bonds outstanding method. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the lives of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refundings of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenues as a separate line item amount. Amortization of bond issuance costs is included in operating expenses as a separate line item amount.

Property and Equipment

Under the Authority's policy, all furniture and equipment with a cost of more than \$1,000 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over a useful life of ten years.

Federally Assisted Program Advances and Fees

In accordance with the terms of contracts between the Authority and the U.S. Department of Housing and Urban Development (HUD), the Authority administers Section 8 Housing Assistance Payments Programs for Existing Housing, New Construction/Substantial Rehabilitation, Contract Administration, Restructuring, Moderate Rehabilitation, Rental Voucher Program and Rental Certificate Program in certain areas of South Carolina. Under these programs, housing assistance payments are made to eligible individuals or to owners of rental housing on behalf of persons of limited income who meet the eligibility requirements.

HUD advances to the Authority sufficient funds to cover the current month's housing assistance payments and the Authority's costs of administration of the subsidy contracts. These administrative fees are recognized as operating revenue when earned in the general operating enterprise fund.

The Home Investments Partnership Program provides grants to local governments and non-profits to assist private property owners in rehabilitating rental housing for low-income tenants. An administrative fee is drawn from HUD to reimburse the Authority, as well as the local government for administrative costs. These administrative fees are recognized as operating revenue when earned. The funds granted and passed through by the Authority are included in the accompanying financial statements in the general operating enterprise fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Loans Receivable

Loans receivable consist of mortgage loans which are carried at par. Discounts on loans are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and the actual life of the loan for multi-family loans and are included in interest income. All mortgage loans are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%. In addition, a special insurance reserve fund of 4% of the outstanding loan balance of all single family loans with less than 100% mortgage insurance has been provided in accordance with the related bond indenture.

Management is of the opinion that the mortgage insurance coverage and the 4% insurance reserve fund are adequate to cover any potential loan losses under the Single Family Finance Programs and the Multi-family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against the special insurance reserve fund. Loans made under the Program Fund and from the Housing Trust Fund are not insured. No losses have occurred to date and the Authority consider the mortgage property provides adequate collateral against any potential losses.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments with banks, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of acquisition to be cash equivalents.

Most State agencies including the Authority participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Authority records and reports its deposits in the general deposit account at cost but reports its deposits in the special deposit accounts at fair value. Investments held in the pool are recorded at fair value. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents (Continued)

Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, unrealized gains/losses arising from changes in fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 2.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Investments

Investments are carried at fair value. Fair value is determined by quoted market prices. Purchases and sales are accounted for on the trade date. Investment income includes interest and dividend income, realized gains/losses on investments, and unrealized changes in fair value of the investments.

Mortgage Escrows

Under provision of certain mortgage loan agreements, the Authority is responsible for collecting deposits from homeowners for payment of property taxes and insurance.

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Authority calculates the compensated absences liability based on recorded balances of unused leave, for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is reported in accounts payable and accrued expenses in the general operating fund. The net change in the liability is reported in the current year in the general and administrative expenses in the general operating enterprise fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. A reserve fund is established to liquidate the liability when determined. The Authority incurred and paid \$12,000 in arbitrage expense for the year ended June 30, 2001 which was recorded in operating expenses in the Enterprise Fund under other expenses. The Authority also paid \$422,600 during the current year for liabilities incurred prior to June 30, 2000. See Note 18.

Budget Policy

The appropriation as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

All of the Authority's administrative costs and rental assistance program expenditures are in the other budgeted funds category. Generally accepted accounting principles do not require budgetary comparisons to be presented for proprietary funds; therefore, none is presented. A budget was not adopted by the General Assembly for the special revenue fund; and, therefore, is not presented.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses and affect disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2. DEPOSITS AND INVESTMENTS:

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing state funds. Certain of the agency's deposits and investments are deposited and/or invested with or managed by financial institutions with the approval of the State Treasurer's Office.

The Authority classifies deposits and investments as either deposits held by State Treasurer, investments held by State Treasurer, other deposits and other investments. The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
		<u>Deposits:</u>	
Unrestricted current assets –		Deposits held by State	
cash and cash equivalents:		Treasurer	\$ 20,823,014
Special revenue fund	\$ 11,812,174	Other deposits	<u>12,319,118</u>
Enterprise fund	9,010,841		
Unrestricted assets - investments:		Total deposits	<u>33,142,132</u>
Enterprise fund	684,112		
Restricted assets - cash and		<u>Investments:</u>	
cash equivalents		Investments held by State	
Enterprise fund	146,841,261	Treasurer	684,112
Restricted assets - investments:		Other investments	<u>155,119,763</u>
Enterprise fund	<u>20,597,619</u>	Total investments	<u>155,803,875</u>
Totals	<u>\$188,946,007</u>	Totals	<u>\$188,946,007</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The Authority's deposits held by State Treasurer are categorized to give an indication of the level of risk assumed by the Authority at year-end.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2. DEPOSITS AND INVESTMENTS: (Continued)

Other Deposits

The Authority's other deposits are categorized to give an indication of the level of risk assumed by the Authority at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and uncollateralized deposits. The Authority's other deposits are categorized as follows:

	<u>Bank Balance</u>	<u>Reported Amount</u>
Category 1	\$ 5,243,849	\$ 5,085,052
Category 3	<u>7,234,066</u>	<u>7,234,066</u>
Total other deposits	<u>\$12,477,915</u>	<u>\$12,319,118</u>

The highest balance during the year ended June 30, 2001 in Category 3 was approximately \$7,947,000.

Investments Held by State Treasurer

The amounts classified as "Investments Held by State Treasurer" in the financial statements totaled \$684,112 and are comprised of investments held for the Authority and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made.

Legally authorized investments vary by fund, but generally they include obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, certain rated obligations of corporations within the United States, and collateralized repurchase agreements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments Held by State Treasurer (Continued)

"Investments Held by State Treasurer" are stated at fair value. Purchases and sales are accounted for on the trade date. Interest earnings are allocated based on the percentage of the Department's accumulated daily income receivable to the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-ended based on the Department's percentage ownership in the pool.

All of the State Treasurer's investments are fully insured or registered or are investments for which the securities are held by the State or its agent in the State's name (Risk Category 1 as defined below). Information pertaining to the reported amounts, fair values, and credit risk of State Treasurer investments as of the balance sheet date is disclosed for each type investment in the Comprehensive Annual Financial Report of the State of South Carolina for the year ended June 30, 2001. However, information pertaining to the credit risk for investments of an individual agency, department, or institution is not available.

The securities held by the State Treasurer for the Authority at June 30, 2001 follows:

U.S. Treasury Bond, at fair value	<u>\$ 684,112</u>
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This is the only type of security held by the State Treasurer during the year.

Other Investments

The Authority has investments in repurchase agreements collateralized by U.S. Government securities and in U.S. Treasury obligations. These investments are generally of the same type as authorized for the State of South Carolina.

All of the "Other Investments" are stated at fair value. Purchases and sales are accounted for on the trade date. Unrealized gains/losses on investments have been recorded as investment income. Realized gains/losses on securities transactions are recorded on the accrual basis as investment income. Earnings are recorded as earned by the Authority. Investments with banks include legally authorized investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposits, collateralized repurchase agreements and certain obligations of United States corporations

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name. All investments are in Category 1.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

Other Investments (Continued)

A summary of these investments which are reported at fair value at June 30, 2001 follows:

Repurchase agreements, collateralized by by U.S. Government securities	\$134,522,144
U.S. Government obligations	3,792,967
U.S. Government Agency obligations	<u>16,804,652</u>
Totals	<u>\$155,119,763</u>

Restricted Deposits and Investments

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (Bank of New York) in the single family and multi-family program funds to meet reserve requirements in order to pay the debt service on bonds. The required and actual reserve amounts for each program at June 30, 2001 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Revenue Reserve Funds – 1998	\$ 3,209,250	\$ 3,209,250	\$
Home Ownership Reserve Funds			
Bond Reserve	799,350	1,166,800	367,450
Special Insurance Reserve			
H01987A, H01988A, H01988C, H01988C2 and H01989A, H01990AB, H01990C, H01991A, H01991B, H01994A	<u>90,703</u>	<u>1,199,241</u>	<u>1,108,538</u>
Total Home Ownership	890,053	2,366,041	1,475,988
Mortgage Revenue Bond Reserve Funds	7,759,900	8,331,942	572,042
Multi-family 1992A & B Mortgage Reserve Funds	<u>231,619</u>	<u>231,619</u>	<u> </u>
Totals	<u>\$12,090,822</u>	<u>\$14,138,852</u>	<u>\$ 2,048,030</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 3. LOANS RECEIVABLE:

Loans receivable, net of unamortized discounts, consist of the following:

Special Revenue Fund:

Housing Trust Fund notes maturing on various dates from 2012 – 2031 plus interest ranging from 1% - 5.5% per annum; payable in monthly installments of principal and interest	<u>\$ 6,970,203</u>
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Enterprise Fund:

Single Family notes maturing on various dates from 2002 - 2031 plus interest ranging from 4% - 12.25% per annum; payable in monthly installments of principal and interest	\$497,222,495
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Less, unamortized discounts	<u>(14,145)</u>
	497,208,350

Multi-family notes maturing on various dates from 2022 - 2025 plus interest at 12.00% per annum; payable in monthly installments of principal and interest	21,544,580
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Program fund notes maturing on various dates from 2002 - 2014 plus interest ranging from 0.00% - 8.00% per annum; payable in monthly installments of principal and interest, where applicable	<u>19,691,338</u>
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Total enterprise fund	<u><u>\$538,444,268</u></u>
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Discounts earned and included in interest on loans amounted to \$19,174 for the Single Family Finance Programs.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 4. BONDS PAYABLE:

At June 30, 2001, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt, consisted of the following:

<u>Description</u>	<u>Date Issued</u>	<u>Issue Amount</u>	<u>Outstanding Balance</u>
Single Family Mortgage Revenue Bonds			
1998 (4.95% to 5.275%) due 2018-2036	9/11/98	\$ 106,975,000	\$ 106,975,000
...Plus, unamortized premium			<u>1,309,067</u>
			<u>108,284,067</u>
Home-ownership Mortgage Revenue Bonds			
1991A (7.15% to 7.4%) due 2007 – 2023	8/1/91	40,000,000	11,490,000
1994A (5.45% to 6.375%) due 2002 - 2016	5/1/94	25,000,000	<u>14,255,000</u>
			<u>25,745,000</u>
Less, unamortized discounts			<u>(197,548)</u>
			<u>25,547,452</u>
Mortgage Revenue Bonds			
1994A (5.375% to 6.75%) due 2002 - 2026	10/20/94	30,000,000	19,645,000
1995A (5.45% to 6.70%) due 2002 - 2027	3/1/95	25,000,000	17,925,000
1996A (5.00% to 6.35%) due 2002 - 2028	5/1/96	25,000,000	19,260,000
1997A (4.65% to 5.95%) due 2002 - 2029	6/1/97	30,000,000	28,150,000
1999A (3.90% to 5.40%) due 2002 – 2031	12/23/98	37,700,000	37,540,000
1999B (5.10% - 8.30%) due 2001 – 2030	11/1/99	139,910,000	136,270,000
2000A (5.40% - 6.40%) due 2003 – 2032	6/1/00	121,435,000	<u>99,435,000</u>
			<u>358,225,000</u>
Less: unamortized discounts			<u>(785,951)</u>
unamortized deferred losses			
on refundings of debt			<u>(2,941,927)</u>
			<u>354,497,122</u>
Multi-family Residential Revenue Bonds			
1992A (3.50% to 6.875%) due 2002 – 2024	5/21/92	19,625,000	17,380,000
Less, unamortized discounts			<u>(202,697)</u>
			<u>17,177,303</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 505,505,944</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 4. BONDS PAYABLE: (CONTINUED)

Amounts including interest required to complete payment of the bond obligation as of June 30, 2001 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2002	\$ 11,510,000	\$ 29,426,598	\$ 40,936,598
2003	6,610,000	28,945,415	35,555,415
2004	9,510,000	28,547,705	38,057,705
2005	10,005,000	28,024,019	38,029,019
2006	10,535,000	27,464,220	37,999,220
Thereafter	<u>460,155,000</u>	<u>395,465,867</u>	<u>855,620,867</u>
 Total	 <u><u>\$508,325,000</u></u>	 <u><u>\$537,873,824</u></u>	 <u><u>\$1,046,198,824</u></u>

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family Mortgage Revenue Bonds the Authority redeemed prior to their maturity during the fiscal year ended June 30, 2001:

Home-ownership Mortgage Revenue	
Series 1994 A	<u>\$ 3,400,000</u>
	<u>3,400,000</u>
Mortgage Revenue Bonds	
Series 1994 A1 and A2	1,955,000
Series 1995 A	1,830,000
Series 1996 A	2,360,000
Series 1997 A	1,530,000
Series 1999 A	160,000
Series 1999 B	3,640,000
Series 2000 A	<u>22,000,000</u>
	<u>33,475,000</u>
 Totals	 <u><u>\$ 36,875,000</u></u>

Single Family Mortgage Revenue Bonds, redeemed at par, resulted in unamortized bond discounts of \$27,718 and bond issuance costs of \$344,700 being written off and reflected as a loss on early extinguishment of debt for the year ended June 30, 2001.

Amortization of bond discounts for the year ended June 30, 2001 that were included in bond interest expense in the enterprise fund follow:

Single Family Home-ownership Mortgage Revenue	\$ 22,117
Single Family Mortgage Revenue	49,880
Multi-family Residential Revenue	<u>14,579</u>
	<u><u>\$ 86,576</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 4. BONDS PAYABLE: (CONTINUED)

Bond premium amortized for the year ended June 30, 2001 and attributable to the Single Family Mortgage Revenue Bonds totaled \$38,511 and was reported as a single item revenue amount in the enterprise fund

Amortization of deferred losses on refundings of debt of \$190,876 for the year ended June 30, 2001 and attributable to the Single Family Mortgage Revenue Bonds was included in bond interest expense in the enterprise fund.

NOTE 5. LEASES:

At June 30, 2001 the Authority was obligated under various operating leases for office space and office equipment having noncancelable lease terms in excess of one year.

The leases of the Authority's office space expire in July, 2004 and September, 2004 and are payable monthly. The Authority is responsible for the pro rata share of increases in the building's operating costs over the preceding rental year limited to no more than 5% increase per year.

Office equipment leases expire in various fiscal years from 2002 through 2004.

Future minimum annual lease payments under non-cancelable operating leases with remaining terms in excess of one year follow:

2002	\$ 496,664
2003	494,386
2004	487,054
2005	<u>132,616</u>
	<u>\$ 1,610,720</u>

The Authority also leases motor vehicles from the State Budget and Control board, which can be cancelled with 30 days notice.

The Authority incurred rental expense of approximately \$449,000 under the aforementioned leases for the fiscal year ended June 30, 2001.

The above information given is for existing leases only and is not a forecast of future rental expense. In the normal course of business, operating leases are generally renewed or replaced with other leases.

In addition to the above leases, the Authority has entered into four noncancellable copier leases on a "pay per copy" plan. The leases expire in fiscal year ending June 30, 2002-2006. Approximately \$11,000 was expended under these leases during the fiscal year ended June 30, 2001.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 6. TRANSACTIONS WITH STATE ENTITIES:

These financial statements include the following related party transactions between the Authority and the State of South Carolina and various State agencies:

- a. The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.50 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- b. Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- c. Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions.
- d. Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts applicable to 2001 expenditures were not readily available.

NOTE 7. FUND TRANSFERS:

Fund transfers, which are allowable in accordance with the terms of the respective bond indentures made during the year ended June 30, 2001 follow:

- a. \$2,666,000 from the Single Family Finance Program to the General Operating fund to pay for operating expenses.
- b. \$1,013 from the Single Family Finance Program to the Multi-Family Finance Program to cover general expenses.
- c. \$358,741 from the Program Fund to the General Operating Fund for principal and interest on HOME loans.
- d. \$3,422,279 from the General Operating Fund to the Program Fund to purchase new loans.
- e. \$58,929 from the General Operating Fund to the Program Fund to pay for administrative fees.
- f. \$549,467 from the Multi-family Finance Program to the Program Fund for the purchase of new loans.

SOUTH CAROLINA HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 8. RISK MANAGEMENT:

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage for all of these risks except business interruption insurance. The Authority has arranged for backup facilities for its data processing needs. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Authority pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits except for deductibles.

Several State funds accumulate assets and the State assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Authority and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets; and,
2. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and equipment. The ISF's rates are determined actuarially.

The Authority obtains coverage through a commercial insurer for employee fidelity bond insurance for certain of its supervisory/management employees for losses arising from theft or misappropriation.

The Authority has recorded insurance premium expenditures in the general and administrative expense category of the general operating fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 9. SEGMENT INFORMATION:

Segment information of the Authority's various enterprise funds which comprise the proprietary fund as of and for the year ended June 30, 2001 is presented on the following pages.

BALANCE SHEETS -- ALL ENTERPRISE FUNDS

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Multi-family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 4,285,172	\$	\$	\$ 4,725,669	\$ 9,010,841
Accounts receivable:					
Due from grantor	3,652,096				3,652,096
Other	158,389			145,135	303,524
Loans receivable				141,019	141,019
Interest receivable:					
Loans				58,003	58,003
Deposits and investments				1,020	1,020
Long-term assets:					
Investments				684,112	684,112
Loans receivable				19,550,319	19,550,319
Restricted assets:					
Current assets:					
Cash and cash equivalents		144,492,868	2,348,393		146,841,261
Accounts receivable			319,140		319,140
Loans receivable, net of unamortized discounts		9,534,420	481,435		10,015,855
Interest receivable:					
Loans		3,795,278	215,455		4,010,733
Deposits and investments		1,979,945	24,067		2,004,012
Long-term assets:					
Investments		20,366,000	231,619		20,597,619
Loans receivable, net of unamortized discounts		487,673,930	21,063,145		508,737,075
Other assets:					
Unamortized bond issuance costs		3,964,273	220,665		4,184,938
Property and equipment:					
Furniture and equipment	1,332,147				1,332,147
Less, accumulated depreciation	(482,950)				(482,950)
TOTAL ASSETS	<u>\$ 8,944,854</u>	<u>\$ 671,806,714</u>	<u>\$ 24,903,919</u>	<u>\$ 25,305,277</u>	<u>\$ 730,960,764</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 9. SEGMENT INFORMATION: (CONTINUED)

BALANCE SHEETS -- ALL ENTERPRISE FUNDS (CONTINUED)

	General Operating	Single Family Finance Programs	Multi-family Finance Programs	Program	Totals
LIABILITIES AND RETAINED EARNINGS					
Current liabilities:					
Accounts payable and accrued expenses	\$ 3,893,216	\$	\$	\$	\$ 3,893,216
Due to grantor	2,297,474				2,297,474
Mortgage escrows				2,023	2,023
Liabilities payable from restricted assets:					
Current liabilities:					
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings		10,287,991	330,568		10,618,559
Interest payable on bonds		14,238,469	152,196		14,390,665
Mortgage escrows		3,080,442	1,371,011		4,451,453
Other liabilities		177,300			177,300
Long-term debt:					
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings		478,040,650	16,846,735		494,887,385
TOTAL LIABILITIES	<u>6,190,690</u>	<u>505,824,852</u>	<u>18,700,510</u>	<u>2,023</u>	<u>530,718,075</u>
Retained earnings:					
Reserved for debt service		152,074,629	5,971,790		158,046,419
Reserved for bond reserves		13,907,233	231,619		14,138,852
Unreserved	2,754,164			25,303,254	28,057,418
TOTAL RETAINED EARNINGS	<u>2,754,164</u>	<u>165,981,862</u>	<u>6,203,409</u>	<u>25,303,254</u>	<u>200,242,689</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u><u>\$ 8,944,854</u></u>	<u><u>\$ 671,806,714</u></u>	<u><u>\$ 24,903,919</u></u>	<u><u>\$ 25,305,277</u></u>	<u><u>\$ 730,960,764</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 9. SEGMENT INFORMATION: (CONTINUED)

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS-
ALL ENTERPRISE FUNDS**

	General Operating	Single Family Finance Programs	Multi-family Finance Programs	Program	Totals
Operating revenues:					
Interest on loans	\$	\$ 34,202,243	\$ 2,593,901	\$ 410,969	\$ 37,207,113
Investment income		10,072,635	86,702	309,262	10,468,599
Bond premium amortization		38,511			38,511
Administrative fees and other	5,323,944		3,568	678,234	6,005,746
TOTAL OPERATING REVENUES	<u>5,323,944</u>	<u>44,313,389</u>	<u>2,684,171</u>	<u>1,398,465</u>	<u>53,719,969</u>
Operating expenses:					
Bond interest		30,421,135	1,219,071		31,640,206
Program services		901,323	469,128	101,911	1,472,362
General and administrative	7,924,434				7,924,434
Bond issuance cost amortization		222,444	15,871		238,315
Depreciation of property and equipment	121,896				121,896
Write-off of property and equipment	93,325				93,325
Other expenses		139,450	1,013		140,463
TOTAL OPERATING EXPENSES	<u>8,139,655</u>	<u>31,684,352</u>	<u>1,705,083</u>	<u>101,911</u>	<u>41,631,001</u>
OPERATING INCOME (LOSS)	<u>(2,815,711)</u>	<u>12,629,037</u>	<u>979,088</u>	<u>1,296,554</u>	<u>12,088,968</u>
Nonoperating revenues (expenses):					
HUD housing assistance contributions earned	38,116,206				38,116,206
Housing assistance payments	(34,693,928)				(34,693,928)
TOTAL NONOPERATING REVENUES (EXPENSES) - NET	<u>3,422,278</u>				<u>3,422,278</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEM	<u>606,567</u>	<u>12,629,037</u>	<u>979,088</u>	<u>1,296,554</u>	<u>15,511,246</u>
Operating transfers:					
From other programs	3,024,741		1,013	4,030,675	7,056,429
(To) other programs	(3,481,208)	(2,667,013)	(549,467)	(358,741)	(7,056,429)
TOTAL TRANSFERS	<u>(456,467)</u>	<u>(2,667,013)</u>	<u>(548,454)</u>	<u>3,671,934</u>	<u>0</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND EXTRAORDINARY ITEM	<u>150,100</u>	<u>9,962,024</u>	<u>430,634</u>	<u>4,968,488</u>	<u>15,511,246</u>
Extraordinary item:					
Loss on early extinguishment of debt		(372,418)			(372,418)
NET INCOME	<u>150,100</u>	<u>9,589,606</u>	<u>430,634</u>	<u>4,968,488</u>	<u>15,138,828</u>
RETAINED EARNINGS, AS RESTATED, BEGINNING OF PERIOD	<u>2,604,064</u>	<u>156,392,256</u>	<u>5,772,775</u>	<u>20,334,766</u>	<u>185,103,861</u>
RETAINED EARNINGS, END OF PERIOD	<u>\$ 2,754,164</u>	<u>\$ 165,981,862</u>	<u>\$ 6,203,409</u>	<u>\$ 25,303,254</u>	<u>\$ 200,242,689</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 9. SEGMENT INFORMATION: (CONTINUED)

STATEMENTS OF CASH FLOWS - ALL ENTERPRISE FUNDS

	General Operating	Single Family Finance Programs	Multi-family Finance Programs	Program	Totals
Cash flows from operating activities:					
Operating income (loss)	\$ (2,815,711)	\$ 12,629,037	\$ 979,088	\$ 1,296,554	\$ 12,088,968
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Bond premium amortization		(38,511)			(38,511)
Depreciation and write-off of property and equipment	215,221				215,221
Bond issuance cost amortization		222,444	15,871		238,315
Loan discount amortization reported in interest on loans revenue		(19,174)			(19,174)
Write-off of loans receivable		6,551			6,551
Bond interest expense -- reclassified to noncapital financing activities		30,421,135	1,219,071		31,640,206
Arbitrage expense - reclassified to noncapital financing		12,000			12,000
Investment income -- reclassified to investing activities		(10,072,635)	(86,702)	(309,262)	(10,468,599)
Changes in assets and liabilities:					
(Increase) decrease in interest receivable on loans		(153,886)	1,788	(15,110)	(167,208)
Increase (decrease) in due from grantor	432,529				432,529
(Increase) decrease in other accounts receivable	(158,389)		25	32,553	(125,811)
Increase (decrease) in mortgage escrows		336,353	(115,233)	201	221,321
Increase (decrease) in accounts payable and accrued expenses	2,640,886	(422,600)			2,218,286
Increase (decrease) in due to grantor	(2,076,057)				(2,076,057)
Increase (decrease) in other liabilities		47,480			47,480
Receipt of loan principal payments		46,488,051	406,470	1,654,508	48,549,029
Purchase/origination of new loans		(75,469,749)	(227,657)	(4,759,272)	(80,456,678)
Total adjustments	1,054,190	(8,642,541)	1,213,633	(3,396,382)	(9,771,100)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,761,521)	3,986,496	2,192,721	(2,099,828)	2,317,868
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(186,800)				(186,800)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(186,800)				(186,800)
Cash flows from noncapital financing activities:					
Interest payments on bonds		(29,379,716)	(1,207,162)		(30,586,878)
Principal payments on bonds		(36,875,000)	(325,000)		(37,200,000)
Payment of bond issuance costs		(129,844)			(129,844)
Payment of arbitrage expense		(12,000)			(12,000)
Transfers from other programs	3,024,741		1,013	4,030,675	7,056,429
Transfers (to) other programs	(3,481,208)	(2,667,013)	(549,467)	(358,741)	(7,056,429)
Receipts from HUD	38,116,206				38,116,206
Housing assistance payments	(34,693,928)				(34,693,928)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	2,965,811	(69,063,573)	(2,080,616)	3,671,934	(64,506,444)
Cash flows from investing activities					
Purchase of investments		(16,386,938)			(16,386,938)
Interest received on deposits and investments		9,404,396	85,800	300,180	9,790,376
NET CASH PROVIDED BY INVESTING ACTIVITIES		(6,982,542)	85,800	300,180	(6,596,562)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,017,490	(72,059,619)	197,905	1,872,286	(68,971,938)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,267,682	216,552,487	2,150,488	2,853,383	224,824,040
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,285,172	\$ 144,492,868	\$ 2,348,393	\$ 4,725,669	\$ 155,852,102

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 10. CONDUIT DEBT:

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina, for multi-housing. As explained in Note 1, these bonds are special limited obligations of the Authority, payable solely from and secured by mortgages to be received from mortgage loans between the Authority and various mortgages. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements.

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
FISCAL YEAR 1985 (84/85)			
10/84	Conduit Mortgage Loan Notes (Cypress General Partnership)	\$1,075,000	\$ 285,372
03/85	Conduit Mortgage Loan Notes (Canal Court Project)	550,000	322,805
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	3,000,000	1,284,375
FISCAL YEAR 1986 (85/86)			
12/85	Multi-family Guaranteed Mortgage Revenue Bonds, 1985B (CTS Parklane)	12,050,000	12,050,000
12/85	Conduit Mortgage Loan Note (Crossroad Apts. Project)	2,150,000	1,484,599
FISCAL YEAR 1987 (86/87)			
12/88	Multi-family Housing Revenue Refunding Bonds (Oakridge Project))	9,150,000	7,200,000
FISCAL YEAR 1989 (88/89)			
12/88	Multi-family Housing Revenue Refunding Bonds (Waverly Place)	8,400,000	5,100,000
07/89	Variable Housing Revenue Refunding Bonds (Patriot Place)	2,200,000	2,200,000
FISCAL YEAR 1991 (90/91)			
07/90	Multi-family Housing Revenue Refunding Bonds (Greenville Oxford)	4,955,000	4,955,000
07/90	Multi-family Housing Revenue Refunding Bonds (Charleston Oxford)	10,180,000	10,180,000
07/90	Multi-family Housing Revenue Refunding Bonds (Richland Oxford)	11,130,000	11,130,000
07/90	Multi-family Housing Revenue Refunding Bonds (Spartanburg Oxford)	9,415,000	9,415,000
09/90	Multi-family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	2,665,000
FISCAL YEAR 1992 (91/92)			
10/91	Multi-family Mortgage Revenue Bonds (Plum Chase)	7,000,000	7,000,000
FISCAL YEAR 1993 (92/93)			
06/93	Multi-family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	4,915,000
06/93	Multi-family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	3,725,000
06/94	Multi-family Housing Revenue Refunding Bonds (North Bluff)	3,940,000	2,940,000
FISCAL YEAR 1994 (93/94)			
06/94	Multi-family Housing Mortgage Revenue Bonds (United Dominion – Forestbrook Apts. Project)	5,000,000	5,000,000
FISCAL YEAR 1995 (94/95)			
06/95	Multi-family Housing Mortgage Revenue Bonds (United Dominion – Hunting Ridge Apts. Project)	3,265,000	3,265,000
06/95	Rental Housing Revenue Refunding Bonds (Bryton Point Apts. Project)	6,945,000	6,455,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 10. CONDUIT DEBT: (CONTINUED)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	FISCAL YEAR 1996 (95/96)		
11/95	Multi-family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	9,500,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	4,165,000
	FISCAL YEAR 1998 (97/98)		
08/97	Multi-family Housing Revenue Refunding Bonds (Oakfield Apts.)	3,250,000	2,844,000
04/98	Multi-family Housing Revenue Bonds (Three Rivers and Edenwood Apts.)	9,535,000	9,240,000
	FISCAL YEAR 1999 (98/99)		
05/99	Multi-family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	4,300,000
	FISCAL YEAR 2000 (99-00)		
07/99	Multi-family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
	FISCAL YEAR 2001 (00/01)		
08/00	Multi-family Revenue Refunding Bonds (Paces Watch Apts. Project)	10,600,000	10,600,000
10/00	Multi-family Rental Housing Revenue Bonds (City Heights Apts. Project)	6,750,000	6,750,000
10/00	Multi-family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,750,000
10/00	Multi-family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	6,250,000
10/00	Multi-family Rental Housing Revenue Bonds (Bayside Apts.)	9,500,000	9,500,000
12/00	Multi-family Rental Housing Revenue Bonds (Bent Tree Apts.)	11,130,000	11,130,000
02/01	Multi-family Rental Housing Revenue Bonds (Ashton & Stoney Creek Apts.)	16,600,000	16,600,000
06/01	Multi-family Housing Revenue Bonds (Fairway Apts. Project)	<u>7,735,000</u>	<u>7,735,000</u>
	Totals	<u>\$228,220,000</u>	<u>\$214,081,151</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 11. PENSION PLAN:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000 the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2001, 2000 and 1999 were approximately \$307,000, \$263,000 and \$233,000, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$6,000 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Authority for pension and group-life benefits are reported as employer contribution expenses within the operating expense category and are included in general and administrative expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 11. PENSION PLAN: (CONTINUED)

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employer/employee contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Authority's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Authority's liability under the pension plans is limited to the amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the authority recognizes no contingent liability for unfunded costs associated with participation in the plans.

NOTE 12. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally, those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Authority for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 21,000 State retirees met these eligibility requirements as of June 30, 2000.

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$305,000 for the year ended June 30, 2001. As discussed in Note 11, the Authority paid approximately \$102,000 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 12. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

Information regarding the cost of insurance benefits applicable to the Authority's retirees is not available. By State law, the Authority has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTE 13. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Authority have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000 – 2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries.

The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the contributions paid from State General Funds to 401(k) accounts of eligible state employees. In addition, the 2000-2001 Appropriations Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actually contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full time employees making less than \$20,000 as of July 1, 2000 are not required to contribute in order to receive the match.

The Authority contributed \$18,350 based on \$25 per participant per pay period beginning January 1, 2001.

NOTE 14. RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 14. RETIREMENT INCENTIVE: (CONTINUED)

The Authority recorded expenses of approximately \$25,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenses are reported in the general and administrative expense category in which the payroll costs for the respective employees are recorded. Of that amount, \$12,042 is also reported as an accrued expense liability at June 30, 2001, for related disbursements to be made in fiscal year 2002.

NOTE 15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued Statement No. 34 Basis Financial Statements and Management's Discussion and Analysis – for State and Local Governments. The new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

NOTE 16. SUBSEQUENT EVENT

On July 20, 2001, the Authority issued Series 2001A Mortgage Revenue Bonds totalling \$63,455,000 with maturities from 2004 to 2033 and interest rates of 3.75% - 5.50% per annum in its Single Family Finance Programs enterprise fund. \$8,180,400 of the bonds proceeds was used to refund prior issued Homeownership Bonds outstanding and the remainder was used to finance the mortgage loan program. For fiscal year 2002, the required principal and interest payment total \$2,931,938.

NOTE 17. COMMITMENTS:

The Authority has financial award commitments outstanding totaling approximately \$4,926,000 as of June 30, 2000 under the Housing Trust fund program.

NOTE 18. PRIOR PERIOD ADJUSTMENT

The Authority recorded a prior period adjustment for arbitrage costs of \$422,600 that were attributable to various bonds refunded as of June 30, 2000 and not recorded as an accrued expense as of the prior year end.

The changes were accounted for in the Homeownership program which is a part of the Single Family Finance Programs enterprise fund as follows:

Enterprise Fund	As Previously Reported	Increase (Decrease)	As Restated
Accounts payable and accrued expenses	\$ 1,252,330	\$ 422,600	\$ 1,674,930
Retained earnings	\$185,526,461	\$ (422,600)	\$185,103,861

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND BALANCE SHEETS – GENERAL OPERATING
JUNE 30, 2001**

	<u>Other Program Funds</u>	<u>Federal Funds</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 913,460	\$ 3,371,712	\$ 4,285,172
Accounts receivable:			
Due from grantor		3,652,096	3,652,096
Other	158,389		158,389
Property and equipment:			
Furniture and equipment	1,245,844	86,303	1,332,147
Less, accumulated depreciation	<u>(453,315)</u>	<u>(29,635)</u>	<u>(482,950)</u>
TOTAL ASSETS	<u><u>\$ 1,864,378</u></u>	<u><u>\$ 7,080,476</u></u>	<u><u>\$ 8,944,854</u></u>
LIABILITIES AND RETAINED EARNINGS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 604,377	\$ 3,288,839	\$ 3,893,216
Due to grantor		<u>2,297,474</u>	<u>2,297,474</u>
Total Current Liabilities	604,377	5,586,313	6,190,690
Retained earnings -- unreserved	<u>1,260,001</u>	<u>1,494,163</u>	<u>2,754,164</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u><u>\$ 1,864,378</u></u>	<u><u>\$ 7,080,476</u></u>	<u><u>\$ 8,944,854</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY
ENTERPRISE FUND BALANCE SHEETS – SINGLE FAMILY FINANCE PROGRAMS
JUNE 30, 2001

	Single Family	Home- ownership	Mortgage Revenue	Totals
ASSETS				
Restricted assets:				
Current assets:				
Cash and cash equivalents	\$ 69,144,431	\$ 12,628,548	\$ 62,719,889	\$ 144,492,868
Loans receivable	4,912,575	274,000	4,347,845	9,534,420
Interest receivable:				
Loans	1,097,707	324,003	2,373,568	3,795,278
Deposits and investments	200,594	196,203	1,583,148	1,979,945
Long-term assets:				
Investments		2,741,425	17,624,575	20,366,000
Loans receivable, net of unamortized discounts	149,622,921	39,683,395	298,367,614	487,673,930
Other assets:				
Unamortized bond issuance costs	1,045,406	37,143	2,881,724	3,964,273
 TOTAL ASSETS	 <u>\$ 226,023,634</u>	 <u>\$ 55,884,717</u>	 <u>\$ 389,898,363</u>	 <u>\$ 671,806,714</u>
LIABILITIES AND RETAINED EARNINGS				
Liabilities payable from restricted assets:				
Current liabilities:				
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$	\$ 1,431,144	\$ 8,856,847	\$ 10,287,991
Interest payable on bonds	2,794,875	824,718	10,618,876	14,238,469
Mortgage escrows	3,080,442			3,080,442
Other liabilities	59,288	21,610	96,402	177,300
Long-term debt:				
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	108,284,067	24,116,308	345,640,275	478,040,650
 TOTAL LIABILITIES	 <u>114,218,672</u>	 <u>26,393,780</u>	 <u>365,212,400</u>	 <u>505,824,852</u>
Retained earnings:				
Reserved for debt service	108,595,712	27,124,896	16,354,021	152,074,629
Reserved - bond reserves	3,209,250	2,366,041	8,331,942	13,907,233
 TOTAL RETAINED EARNINGS	 <u>111,804,962</u>	 <u>29,490,937</u>	 <u>24,685,963</u>	 <u>165,981,862</u>
 TOTAL LIABILITIES AND RETAINED EARNINGS	 <u>\$ 226,023,634</u>	 <u>\$ 55,884,717</u>	 <u>\$ 389,898,363</u>	 <u>\$ 671,806,714</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND BALANCE SHEETS – MULTI-FAMILY FINANCE PROGRAMS
JUNE 30, 2001**

	1992 Series A & B	1983 Series A and 1985 Series B	1984 Series A	Totals
ASSETS				
Restricted assets:				
Current assets:				
Cash and cash equivalents	\$ 1,762,514	\$ 348,132	\$ 237,747	\$ 2,348,393
Accounts receivable	3,460	315,680		319,140
Loans receivable	200,490			200,490
Interest receivable:				
Loans	215,455			215,455
Deposits and investments	17,409	6,658		24,067
Long-term assets:				
Investments	231,619			231,619
Loans receivable, net of unamortized discounts	21,344,090			21,344,090
Other assets:				
Unamortized bond issuance costs	220,665			220,665
TOTAL ASSETS	\$ 23,995,702	\$ 670,470	\$ 237,747	\$ 24,903,919
LIABILITIES AND RETAINED EARNINGS				
Liabilities payable from restricted assets:				
Current liabilities:				
Bonds payable, net of unamortized premiums and discounts	\$ 330,568	\$	\$	\$ 330,568
Interest payable on bonds	152,196			152,196
Mortgage escrows	705,393	427,871	237,747	1,371,011
Long-term debt:				
Bonds payable, net of unamortized premiums and discounts	16,846,735			16,846,735
TOTAL LIABILITIES	18,034,892	427,871	237,747	18,700,510
Retained earnings:				
Reserved for debt service	5,729,191	242,599		5,971,790
Reserved for bond reserves	231,619			231,619
TOTAL RETAINED EARNINGS	5,960,810	242,599		6,203,409
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 23,995,702	\$ 670,470	\$ 237,747	\$ 24,903,919

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS – GENERAL OPERATING
YEAR ENDED JUNE 30, 2001**

	Other Program Funds	Federal Funds	Totals
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Administrative fees	\$ 1,357,993	\$ 3,965,951	\$ 5,323,944
	<u> </u>	<u> </u>	<u> </u>
Total operating revenues	1,357,993	3,965,951	5,323,944
	<u> </u>	<u> </u>	<u> </u>
Operating expenses:			
General and administrative	4,337,911	3,586,523	7,924,434
Depreciation of furniture and equipment	120,112	1,784	121,896
Write-off of furniture and equipment	93,325		93,325
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	4,551,348	3,588,307	8,139,655
	<u> </u>	<u> </u>	<u> </u>
OPERATING INCOME (LOSS)	(3,193,355)	377,644	(2,815,711)
	<u> </u>	<u> </u>	<u> </u>
Nonoperating revenues (expenses):			
HUD housing assistance contributions earned		38,116,206	38,116,206
Housing assistance payments		(34,693,928)	(34,693,928)
	<u> </u>	<u> </u>	<u> </u>
Total nonoperating revenues (expenses) -net		3,422,278	3,422,278
	<u> </u>	<u> </u>	<u> </u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(3,193,355)	3,799,922	606,567
	<u> </u>	<u> </u>	<u> </u>
Operating transfers:			
Transfers among programs	3,063,538	(3,063,538)	
Transfers from other programs	3,024,741		3,024,741
Transfers to other programs	(3,481,208)		(3,481,208)
	<u> </u>	<u> </u>	<u> </u>
Total operating transfers	2,607,071	(3,063,538)	(456,467)
	<u> </u>	<u> </u>	<u> </u>
NET INCOME (LOSS)	(586,284)	736,384	150,100
	<u> </u>	<u> </u>	<u> </u>
RETAINED EARNINGS, beginning of year	1,846,285	757,779	2,604,064
	<u> </u>	<u> </u>	<u> </u>
RETAINED EARNINGS, end of year	\$ 1,260,001	\$ 1,494,163	\$ 2,754,164
	<u> </u>	<u> </u>	<u> </u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS – SINGLE FAMILY FINANCE PROGRAMS
YEAR ENDED JUNE 30, 2001**

	Single Family	Home- ownership	Mortgage Revenue	Totals
Operating revenues:				
Interest on loans	\$ 10,341,310	\$ 3,600,133	\$ 20,260,800	\$ 34,202,243
Investment income	3,140,260	802,240	6,130,135	10,072,635
Bond premium amortization	38,511			38,511
Total operating revenues	<u>13,520,081</u>	<u>4,402,373</u>	<u>26,390,935</u>	<u>44,313,389</u>
Operating expenses:				
Bond interest	5,589,750	1,931,440	22,899,945	30,421,135
Program	257,445	76,063	567,815	901,323
Bond issuance cost amortization	41,510	4,203	176,731	222,444
Other	7,861	25	131,564	139,450
Total operating expenses	<u>5,896,566</u>	<u>2,011,731</u>	<u>23,776,055</u>	<u>31,684,352</u>
OPERATING INCOME BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEM	<u>7,623,515</u>	<u>2,390,642</u>	<u>2,614,880</u>	<u>12,629,037</u>
Operating transfers:				
Transfers among programs	832,653	(1,468,850)	636,197	
Transfers (to) other programs	(2,666,000)	(1,013)		(2,667,013)
Total transfers	<u>(1,833,347)</u>	<u>(1,469,863)</u>	<u>636,197</u>	<u>(2,667,013)</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	5,790,168	920,779	3,251,077	9,962,024
Loss on early extinguishment of debt		(29,457)	(342,961)	(372,418)
NET INCOME (LOSS)	5,790,168	891,322	2,908,116	9,589,606
RETAINED EARNINGS, as restated, beginning of year	<u>106,014,794</u>	<u>28,599,615</u>	<u>21,777,847</u>	<u>156,392,256</u>
RETAINED EARNINGS, end of year	<u><u>\$ 111,804,962</u></u>	<u><u>\$ 29,490,937</u></u>	<u><u>\$ 24,685,963</u></u>	<u><u>\$ 165,981,862</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS – MULTI-FAMILY FINANCE PROGRAMS
YEAR ENDED JUNE 30, 2001**

	1992 Series A and B	1983 Series A 1985 Series B	1994 Series A	Totals
Operating revenues:				
Interest on loans	\$ 2,593,901	\$	\$	\$ 2,593,901
Investment income	73,114	13,588		86,702
Other		3,568		3,568
Total operating revenues	2,667,015	17,156		2,684,171
Operating expenses:				
Bond interest	1,219,071			1,219,071
Program	469,128			469,128
Bond issuance cost amortization	15,871			15,871
Other	1,013			1,013
Total operating expenses	1,705,083			1,705,083
OPERATING INCOME BEFORE OPERATING TRANSFERS	961,932	17,156		979,088
Operating transfers:				
Transfer from other program	1,013			1,013
Transfers (to) other programs	(532,174)	(17,293)		(549,467)
Total transfer	(531,161)	(17,293)		(548,454)
NET INCOME (LOSS)	430,771	(137)		430,634
RETAINED EARNINGS, beginning of year	5,530,039	242,736		5,772,775
RETAINED EARNINGS, end of year	\$ 5,960,810	\$ 242,599	\$	\$ 6,203,409

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF CASH FLOWS – GENERAL OPERATING
YEAR ENDED JUNE 30, 2001**

	Other Program Funds	Federal Funds	Totals
Cash flows from operating activities:			
Operating income (loss)	\$ (3,193,355)	\$ 377,644	\$ (2,815,711)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and write-off of property and equipment	213,437	1,784	215,221
Changes in assets and liabilities:			
Increase (decrease) in due from grantor		432,529	432,529
Increase (decrease) in other accounts receivable	(158,389)		(158,389)
Increase (decrease) in accounts payable and accrued expenses	(88,898)	2,729,784	2,640,886
Increase (decrease) in due to grantor		(2,076,057)	(2,076,057)
Total adjustments	(33,850)	1,088,040	1,054,190
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,227,205)	1,465,684	(1,761,521)
Cash flows from capital and related financing activities:			
Purchase of property and equipment	(142,577)	(44,223)	(186,800)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(142,577)	(44,223)	(186,800)
Cash flows from noncapital financing activities:			
Transfers among programs			
Transfers from other programs	2,666,000	358,741	3,024,741
Transfers (to) other programs	(58,929)	(3,422,279)	(3,481,208)
Receipts from HUD		38,116,206	38,116,206
Housing assistance payments		(34,693,928)	(34,693,928)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,607,071	358,740	2,965,811
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(762,711)	1,780,201	1,017,490
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,676,171	1,591,511	3,267,682
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 913,460	\$ 3,371,712	\$ 4,285,172

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF CASH FLOWS – SINGLE FAMILY FINANCE PROGRAMS
YEAR ENDED JUNE 30, 2001**

	<u>Single Family</u>	<u>Home- ownership</u>	<u>Mortgage Revenue</u>	<u>Totals</u>
Cash flows from operating activities:				
Operating income	<u>\$ 7,623,515</u>	<u>\$ 2,390,642</u>	<u>\$ 2,614,880</u>	<u>\$ 12,629,037</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Bond premium amortization	(38,511)			(38,511)
Bond issuance cost amortization	41,510	4,203	176,731	222,444
Loan discount amortization reported in interest on loans revenue		(12,182)	(6,992)	(19,174)
Write-off of loans receivable		4,089	2,462	6,551
Bond interest expense - reclassified to noncapital financing activities	5,589,750	1,931,440	22,899,945	30,421,135
Arbitrage expenses - reclassified to noncapital financing			12,000	12,000
Investment income - reclassified to investing activities	(3,140,260)	(802,240)	(6,130,135)	(10,072,635)
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expense		(422,600)		(422,600)
(Increase) decrease in interest receivable-loans	132,231	89,125	(375,242)	(153,886)
Increase (decrease) in mortgage escrows	336,353			336,353
Increase (decrease) in other liabilities	10,958	967	35,555	47,480
Receipt of loan principal payments	16,245,431	6,041,936	24,200,684	46,488,051
Purchase/origination of new loans	<u>(8,116,219)</u>		<u>(67,353,530)</u>	<u>(75,469,749)</u>
Total adjustments	<u>11,061,243</u>	<u>6,834,738</u>	<u>(26,538,522)</u>	<u>(8,642,541)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>18,684,758</u>	<u>9,225,380</u>	<u>(23,923,642)</u>	<u>3,986,496</u>
Cash flows from noncapital financing activities:				
Interest payments on bonds	(5,589,750)	(1,850,148)	(21,939,818)	(29,379,716)
Principal payments on bonds		(3,400,000)	(33,475,000)	(36,875,000)
Payment of bond issuance costs			(129,844)	(129,844)
Payment of arbitrage expense			(12,000)	(12,000)
Transfers among programs	832,653	(1,468,850)	636,197	
Transfers to other programs	<u>(2,666,000)</u>	<u>(1,013)</u>		<u>(2,667,013)</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(7,423,097)</u>	<u>(6,720,011)</u>	<u>(54,920,465)</u>	<u>(69,063,573)</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF CASH FLOWS – SINGLE FAMILY FINANCE PROGRAMS
CONTINUED
YEAR ENDED JUNE 30, 2001**

	<u>Single Family</u>	<u>Home- ownership</u>	<u>Mortgage Revenue</u>	<u>Totals</u>
Cash flows from investing activities:				
Purchase of investments			(16,386,938)	(16,386,938)
Investment income	<u>3,196,514</u>	<u>772,698</u>	<u>5,435,184</u>	<u>9,404,396</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>3,196,514</u>	<u>772,698</u>	<u>(10,951,754)</u>	<u>(6,982,542)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,458,175	3,278,067	(89,771,861)	(72,035,619)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>54,686,256</u>	<u>9,350,481</u>	<u>152,515,750</u>	<u>216,552,487</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 69,144,431</u></u>	<u><u>\$ 12,628,548</u></u>	<u><u>\$ 62,743,889</u></u>	<u><u>\$ 144,516,868</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF CASH FLOWS – MULTI-FAMILY FINANCE PROGRAMS
YEAR ENDED JUNE 30, 2001**

	1992 Series A & B	1983 Series A and 1985 Series B	1984 Series A	Totals
Cash flows from operating activities:				
Operating income (loss)	\$ 961,932	\$ 17,156	\$	\$ 979,088
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Bond issuance cost amortization	15,871			15,871
Bond interest expense - reclassified to noncapital financing activities	1,219,071			1,219,071
Investment income - reclassified to investing activities	(73,114)	(13,588)		(86,702)
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(402)	427		25
(Increase) decrease in interest receivable - loans	1,788			1,788
Increase (decrease) in mortgage escrows	(65,068)	(87,257)	37,092	(115,233)
Receipt of loan principal payments	406,470			406,470
Purchase/origination of new loans	(227,657)			(227,657)
Total adjustments	1,276,959	(100,418)	37,092	1,213,633
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,238,891	(83,262)	37,092	2,192,721
Cash flows from noncapital financing activities:				
Interest payments on bonds	(1,207,162)			(1,207,162)
Principal payments on bonds	(325,000)			(325,000)
Transfers to other programs	(532,174)	(17,293)		(549,467)
Transfers from other programs	1,013			1,013
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(2,063,323)	(17,293)		(2,080,616)

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**ENTERPRISE FUND STATEMENTS OF CASH FLOWS – MULTI-FAMILY FINANCE PROGRAMS
CONTINUED**

YEAR ENDED JUNE 30, 2001

	<u>1992 Series A & B</u>	<u>1983 Series A and 1985 Series B</u>	<u>1984 Series A</u>	<u>Totals</u>
Cash flows from investing activities:				
Investment income	<u>72,502</u>	<u>13,298</u>	<u></u>	<u>85,800</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>72,502</u>	<u>13,298</u>	<u></u>	<u>85,800</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	248,070	(87,257)	37,092	197,905
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,514,444</u>	<u>435,389</u>	<u>200,655</u>	<u>2,150,488</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,762,514</u></u>	<u><u>\$ 348,132</u></u>	<u><u>\$ 237,747</u></u>	<u><u>\$ 2,348,393</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Total Expenditures</u>	<u>Expenditures to Subrecipients</u>
HUD/Lower Income Housing Assistance Program - Section 8 New Construction/ Substantial Rehabilitation	14.182	\$ 7,638,160	\$
HUD/Lower Income Housing Assistance – Contract Administration	14.195	10,462,845	
HUD/Lower Income Housing Assistance - Restructuring	14.197	354,987	
HUD/HOME Investment Partnerships Program	14.239	8,712,018	2,507,290
HUD/Section 8 Rental Voucher Program	14.855	8,275,112	1,655,863
HUD/Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	1,028,293	16,441
HUD/Section 8 Rental Certificate Program	14.857	<u>5,192,562</u>	<u>861,946</u>
		<u>\$41,663,977</u>	<u>\$ 5,041,540</u>
TOTAL			

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina State Housing Finance and Development Authority and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina State Housing Finance and Development Authority (the Authority) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 26, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Commission members and management of the Authority and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2001

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina State Housing Finance and Development Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Authority's major federal programs are identified in the summary of auditor's result's section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 01-2.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Commission members and management of the Authority and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Logan & Lohan, P.A.

September 26, 2001

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2001**

SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued: Unqualified Opinion
2. Internal control over financial reporting:
- Material weaknesses identified? _____ yes X no
- Reportable condition identified
not considered to be material weaknesses? X yes _____ no
3. Noncompliance material to the financial
Statements noted? _____ yes X no

Federal Awards

4. Internal control over major programs:
- Material weakness identified? _____ yes X no
- Reportable condition identified
not considered to be material weaknesses? _____ yes X no
5. Type of auditor's report issued on
compliance for major programs: Unqualified opinion
6. Any audit findings disclosed that are
required to be reported in accordance
with Circular A- 133, Section .510(a)? X yes _____ no
7. Identification of major programs:

CFDA Number

Name of Federal Program

14.195

HUD/Lower Income Housing Assistance
Contract Administration

14.239

HUD/Home Investment Partnerships Program

8. Dollar threshold used to distinguished
between Type A and Type B programs: \$1,249,919
9. Auditee qualified as low-risk auditee? X yes _____ no

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)
YEAR ENDED JUNE, 30, 2001**

FINDING RELATED TO THE FINANCIAL STATEMENTS

The following reportable condition is related to the Authority's financial statements and is required to be reported in accordance with auditing standards generally accepted in the United States of America.

01-1 DEFICIENCIES IN CONTROLS OVER PROCESSING RECEIPTS

Condition: Our test of receipts disclosed the Authority is not timely depositing all receipts as required by State law. Also, we noted a receipt for \$9,843 which was for a current year expenditure refund was credited to revenue instead of the applicable expenditure account.

Criteria: Proviso 72.1 of the 2001 Appropriation Act requires all receipts to be deposited at least once each week. Generally accepted accounting principles require current year expenditure refunds to be offset against the applicable expenditure account. Also, an effective internal control system includes review and follow-up on the timely and accurate performance of assigned duties.

Effect: Failure to timely deposit receipts could result in the loss of investment income by the Authority. The crediting of current year expenditure refunds to a revenue account results in overstatements of revenues and expenditures in the Authority's general ledger accounts and financial statements.

Cause: Errors by the Authority's personnel resulted in receipts not being deposited timely and an expenditure refund being recorded as revenue.

Recommendation: We recommend that the Authority follow its internal control procedures which include independent reviews of transaction coding to ensure that it deposits all receipts in a timely manner as required by State law and credit all current year expenditure refunds to the applicable expenditure account.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)
YEAR ENDED JUNE, 30, 2001**

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**01-2 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-HUD/HOME INVESTMENT
PARTNERSHIP PROGRAM-CFDA #14.239**

Condition: The Authority did not have a system in place under this grant to ensure adequate monitoring of subrecipients and to ensure that they had a single audit if the subrecipient expended more than \$300,000 in federal awards in a year.

Criteria: Section 400(d) of OMB Circular A-133 contains the responsibilities of passthrough entities regarding monitoring and single audit requirements.

Effect: Failure to determine whether the awards had been spent in accordance with program guidelines.

Cause: It appears that the personnel responsible for this award did not perform adequate monitoring as required by OMB Circular A-133.

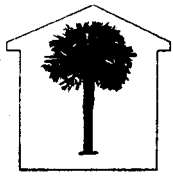
Recommendation: Ensure that all Authority employees responsible for the various duties for its federal programs are knowledgeable of the specific grant and program requirements and of A-133 requirements for monitoring subrecipients and that the Authority obtains and reviews a single audit report for all subrecipients that spend more than \$300,000 in a year and follows up on findings reported in those single audit reports.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

**STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2001**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Schedule of Findings and Questioned Costs section of our report for the fiscal year ended June 30, 2000 dated September 29, 2000. We determined that the Authority has taken adequate corrective action on each of the deficiencies that were included in the prior report.

CORRECTIVE ACTION PLAN APPENDIX A



South Carolina
STATE HOUSING
Finance and Development Authority

(803) 734-2000 • 919 Bluff Road • Columbia, South Carolina 29201

Corrective Action Plan

October 18, 2001

South Carolina State Housing Finance and Development Authority respectfully submits the following corrective action plan for the year ended June 30, 2001.

Name and address of independent public accounting firm: Rogers & Laban, PA, 1529 Hampton Street, Suite 200, Columbia, SC 29201.

Audit period: July 1, 2000 – June 30, 2001

The findings from the June 30, 2001 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

01-1 DEFICIENCIES IN CONTROLS OVER PROCESSING RECEIPTS

Recommendation: Deposit all receipts in a timely manner as required by state law and credit all expenditure refunds to the applicable expenditure account.

Action taken: Each Division Director will develop procedures that require personnel handling checks to remit the checks to the Accounting Department within two days after receiving them. Procedures are already in place in accounting that requires the deposit of all checks immediately. Each accounting supervisor will be required to review deposits to ensure that checks are being deposited in a timely manner.

Procedures have been written which requires the GOF senior accountant to review all deposits to ensure the expenditure reimbursements are charged back to the applicable expenditure accounts.

01-2 HUD/HOME INVESTMENT PARTNERSHIP PROGRAM-CFDA #14.239

Recommendation: Ensure that all Authority employees responsible for various duties for its federal programs are knowledgeable of the specific grant and program requirements and of A-133 requirements assuring that subrecipients are monitored and that the authority obtains and reviews a single audit report for any subrecipient that spends more than \$300,000 in a year.

"Housing South Carolina Is Our Business"

Action taken: The Authority has developed and implemented an Annual Monitoring Plan that outlines all of the subrecipients to be monitored for that year in accordance with specific grant and program requirements. In addition, employees who are responsible for monitoring subrecipients were instructed on the A-133 monitoring requirements. This will be an ongoing process as we get new employees. Single audit reports will be requested and reviewed for non-compliance conditions as applicable.

If there are any questions regarding this plan, please call Rosalia Moore at (803) 734-2095.